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In the Matter of: Open Network Architecture Tariffs of Bell Operating Companies	CC Docket No. 92-91

To: The Commission

COMMENTS OF ALLNET COMMUNICATION SERVICES, INC.

Allnet Communication Services, Inc. (Allnet), hereby files these comments on the direct cases of the Bell Operating Companies in the above captioned investigation proceeding. As will be explained, the review of the ONA direct cases were severely hampered by the restraints imposed on the availability of information, and the ability of the parties reviewing the materials to exchange ideas on their findings. Thus, much reliance is placed on the disavowed "audit" by Arthur Anderson -- a review that its authors concede is not an audit at all. However, as well be explained, the Arthur Anderson study, to the extent it was made available (albeit in a redacted version), will be shown to be seriously flawed and biased.

Even with all of these impediments, certain facts come through which clearly show that some ONA tariffs must be rejected. Specifically, the Arthur Anderson study clearly shows that the SCIS and SCM computer model results are highly subjective, and are easily manipulated by the individual local exchange carrier. This manipulation becomes very apparent in the sensitivity studies of the

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Arthur Anderson report. Those sensitivity studies show that the costs for ONA features can be manipulated to vary over large ranges, as LEC controls over the software programs are varied. Thus, it is not surprising that the ONA rates that were filed varied considerably, even when the same switch technology was employed.

I. Arthur Anderson Had No Incentive To Be Objective

Despite the widely varying results, as well as the acknowledged extensive control that the LECs have over the stated costs, the Arthur Anderson study found no flaws with these results, or with the differing and often conflicting cost methodologies employed. This is not surprising.

Arthur Anderson has done extensive work for the BOCs and continues to solicit their work. Critical judgments of one BOC's methods or approaches, over another's, would have offended the criticized BOCs -- meaning lost consulting revenue for Arthur Anderson in the future. Thus, there was no incentive for Arthur Anderson to provide any objective criticism of the SCIS/SCM models, or the results that were produced for any client. If anything, the incentives were to rubber stamp what was done -- and that is exactly what they did.

II. The Arthur Anderson Group Who Performed the Audit Did Not Have All of the Proper Skills To Review the Models

Arthur Anderson concedes that it did not perform an audit of the SCIS/SCM models. It concedes that an audit requires that the auditor perform "appropriate tests and other procedures of the underlying accounting records, procedures and systems in conformity with generally accepted auditing standards established by the profession."[1] These were not done here. Moreover, Arthur Anderson concedes that its did not attempt to answer the question "What cost standard should be used by the BOCs for developing the switch investment costs used to support the BSE tariffs?"[2]

Arthur Anderson also concedes, "with regard to the actual investment and feature investment equations, Arthur Anderson did not conduct a technical engineering review of equipment prices, capacities, etc."[3] This is not surprising, given that Arthur Anderson has conceded that there are no qualified engineers on the staff of the audit team. Instead, they relied upon the engineering opinions of Bellcore personnel. Thus, for example, Arthur Anderson did not attempt to validate the models in terms of whether they properly modeled the components of the BOC switches. Nor did they verify the accuracy or appropriateness of the input data (e.g., the raw cost inputs[4]) Instead, they only reviewed the process by which the models were developed, and not the models themselves.

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[1]Arthur Anderson Report at 25.

[2]Arthur Anderson Report at 26.

[3]Arthur Anderson Report at 63.

[4]As an example, the Arthur Anderson staff conceded at the May 13, 1992 meeting that it will not look at the invoices for the equipment to determine whether the BOCs properly translated that information into inputs to the SCIS/SCM models.

III. Although Not Highlighted, Arthur Anderson Uncovered a Fatal Flaw In the SCIS/SCM Models

Arthur Anderson subscribes to the principle that "in the long run, all factors of production are variable."[5] However, Arthur Anderson also points out that "to the extent that actual engineering and construction (for example, building more or less capacity than prescribed by engineering rules) changes fixed investment in volume-sensitive investment relationships, SCIS does not attempt to model these."[6] In other words, the SCIS/SCM does not model how costs are actually incurred, but how costs theoretically might be incurred if a BOC strictly followed the engineering rules setout by the manufacturer. The SCIS/SCM models, therefore, have little to do with real world costs.

IV. Consistency Is Not A Strength of SCIS/SCM Modeling

Even though it is a well accepted principle that rates for ONA-type features should be based on consistent pricing principles, and based on marginal costs, many BOCs selected and chose when and where to apply these principles. Some BOCs used average costs, while other used mixes of average and marginal costs.[7] Ironically, only one BOC, BellSouth, consistently used marginal cost pricing.

If an ONA element is not a stand-alone feature (i.e., it cannot be used without also purchasing access switching), then the appropriate costing standard is marginal cost, rather than average costs. As noted by BellSouth in its Direct Case at 8, the average cost is not the proper cost standard because it does not reflect the costs that would be saved if the BSE were not provided. This statement

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[5]Arthur Anderson Report at 63.

[6]Arthur Anderson Report at 62.

[7]See, for example, Arthur Anderson Report at 76.

is only true, however, if the BSE could not be used on a stand-alone basis.

This analysis becomes clearer with the following thought experiment. Consider calling number deliver, i.e., ANI. ANI has no stand-alone use without purchasing local switching because ANI identifies the calling number associated with a switched access call. If there is no switched access call, then there is no ANI to deliver. Thus, if every switched access user failed to purchase ANI, the processor of the switch would still be preoccupied with processing switched access calls, thus requiring the rates for the basic switched access calls (without ANI) to pick up all of the overhead costs and unused processor capacity. ANI is truly sold as a marginal or ancillary service to local switching (i.e., no stand-alone cost exists for ANI). ANI cannot be purchased on a stand alone basis. Thus the pricing for ANI need not be concerned with recovery of overhead and unused switch processor capacity since we could never be in the predicament where customers were purchasing only marginal cost-priced ANI services with no one picking up the tab on the overhead costs and common unused processor capacity costs.[8]

Such pricing would also be consistent with Ramsey Pricing given that the demand for options to switched access (i.e., the ONA BSEs that are soley adjuncts to switched access purchased) are, by definition, clearly more elastic than the demand for the switched access itself. This relative demand elasticity relationship is undisputed.

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[8]The ANI feature could be contrasted with some other use of a switch which did not employ switched access minutes of use -- such as a completely new stand-alone toll service. Such a toll service would be required to be priced on a fully loaded, average cost basis because it is possible that such a toll service could be provided through a switch that was not providing switched access -- resulting in a failure to recover common overhead costs and unused processor capacities. This unacceptable result highlights the distortionary nature of the pricing for features or services that could be sold on a stand-alone basis.

In summary, to price ONA BSEs which have no stand-alone cost on any basis other than a marginal cost basis will create distortions, resulting in purchasers of these options paying a disproportionate portion of the overhead costs. Thus, all BOCs must be required to use a consistent costing principle, and that costing principle should be marginal cost pricing if the ONA feature is ancillary to local switching (i.e., sold at the margins). For ANI, therefore, the ANI rates of all BOCs except for BellSouth and Southwestern Bell (both of whom employed marginal costing principles),[9] must be rejected for this reason alone.

V. Technology Mixes Must Reflect Future, Not Past, Investment Trends

Ameritech, New York Telephone, and New England Telephone all gave "substantial weighting to the [switch-types] in their technology mixes [which] have higher [ANI] costs."[10] Technology weighting can have a substantial impact on the ANI rates charged.[11] Even though Ameritech concedes that new 1AESS switches are not being installed, and that those in place are being replaced by digital machines (which have lower ANI costs), Ameritech insists that this embedded base of machines should be included in determining future prices for ONA BSA and BSE elements.[12] Ameritech argues that this backwards looking pricing strategy is consistent with "fully distributed pricing principles."[13] However, as noted in the previous section, fully distributed pricing principles are

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[9]See, Arthur Anderson Report at Appendix 23, page 3.

[10]Arthur Anderson Report at 83.

[11]Arthur Anderson Report at 14.

[12]Ameritech Direct Cases at 5.

[13]Ameritech Direct Case at 5.

not appropriate for pricing optional features that have no stand-alone cost. Such is the case with ANI.

Furthermore, the use of the embedded technology mix, rather than the future technology mix, is not consistent with "long run incremental costs."[14] As BellSouth notes:

> The investment utilized in a long-run incremental cost analysis are limited to those technologies which will be deployed on a forward looking basis in the long-run. Where a BOC has a particular switch technology in its embedded base, but is no longer continuing to deploy that technology, it is excluded from a forward-looking analysis. BellSouth is no longer deploying analog switches, such as the 1ESS and 1AESS, and, therefore, for Bellsouth, these switches are not a forward-looking technology. ...The use of embedded investment and embedded costs is not appropriate in identifying a cost floor for the same reasons that the use of an average approach is incorrect.[15]

Allnet agrees with BellSouth to the extent that the costing principle is being applied to a service that has no stand-alone cost.

Having improperly included 1ESS and 1AESS switching technology for determining the costs for ANI, the Ameritech and NYNEX ANI rates must be rejected.

VI. Analyses Done With Improper Versions of the Software Must Be Outrightly Rejected

Both NYNEX and Ameritech used SCIS versions that "reflected older switch feature related hardware prices."[16] This resulted in deviations in the

[14]Ironically, NYNEX claims otherwise (NYNEX Direct Case at Appendix A, page 5 of 8), but fails to explain how existing technology mixes can satisfy long run incremental pricing standards.

[15]BellSouth Direct Case at 30-31.

[16]Arthur Anderson Report at 83.

costing results.[17] As with technology mixes, it is improper to use old software versions, which employ both outdated pricing and technology models, to determine future rates, based on long run incremental costs. Thus, both the NYNEX and Ameritech ANI rates for ANI must be rejected for this reason alone.

VII. **Analyses of The Direct Cases Was Severely Hampered By the Unreasonable Withholding of Information**

To date, Allnet has not received the so-called "Redaction II" version of the SCIS or SCM documentation. Allnet also was not given access to viewing the SCIS and/or SCM software. Thus, Allnet has not been allowed to see any of the model equations and pass on their validity or reasonableness. Finally, the Commission has never passed on the reasonableness of the redactions (for those who received information under the confidentiality agreements) that were made by the BOCs, Bellcore and/or Arthur Anderson for either the SCIS/SCM documentation or the Arthur Anderson study itself. By failing to rule on the redactions of the essential sources of information, the Commission has left the "fox in charge of the chicken coup." These parties had no incentive to provide interested parties access to any meaningful information -- yet, the Commission has not thus far failed to explicitly require them to disclose any information to the parties.

The ability for interested parties, such as Allnet, to meaningfully participate in this proceeding has been significantly hampered. The Commission should rule on the information that must be released pursuant to a confidentiality agreement before final oppositions to direct cases should be filed.

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[17]See, Arthur Anderson Report at Appendix 23, pages 1 and 2.

Thus, the Commission should provide for additional oppositions to direct cases only after such determinations are made, and all the information that must be made available is released.[18]

V. Conclusion

Based on the limited access provided to Allnet of critical information, all of the ANI rates proposed by all BOCs, except for BellSouth and Southwestern Bell, should be rejected. Allnet has not reviewed any of the information pertaining to the other ONA rate elements and, thus, does not provide any specific guidance with regard to their rates.

Respectfully submitted,
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[18] In a related matter, Allnet has pending before the Court of Appeals an appeal of an FOIA request for public release of the information, without the hampering restrictions of a confidentiality agreement. Allnet v FCC, Case No. 92-5351 (C.A.D.C. filed September 30, 1992)

Certificate of Service

I, Roy L. Morris, hereby certify that I have caused to be served on this date,October 16, 1992 a true copy of the forgoing Allnet Comments by postage-prepaid first class mail to the parties on the attached service list.

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